

## Message Text

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ORIGIN EUR-12

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FM SECSTATE WASHDC

TO USMISSION EC BRUSSELS IMMEDIATE

AMEMBASSY BRUSSELS IMMEDIATE

AMEMBASSY BONN IMMEDIATE

AMEMBASSY PARIS IMMEDIATE

AMEMBASSY LONDON IMMEDIATE

AMEMBASSY ROME IMMEDIATE

AMEMBASSY DUBLIN IMMEDIATE

AMEMBASSY COPENHAGEN IMMEDIATE

AMEMBASSY THE HAGUE IMMEDIATE

AMEMBASSY LUXEMBOURG IMMEDIATE

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E.O. 11652: N/A

TAGS: ETRD, EC, EAGR

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SUBJECT: COMMISSION PROPOSAL TO TAX VEGETABLE FATS AND OILS

REF: 1) EC BRUSSELS 6708 2) EC BRUSSELS 6746

1. AS OUTLINED REFTELS, EC COMMISSION HAS PROPOSED TAX ON IMPORTED AND DOMESTIC FISH AND VEGETABLE OILS AS PART OF ITS LONG TERM DAIRY MEASURES. WE ARE PROFOUNDLY CONCERNED WITH THIS NEW EFFORT TO LIMIT ACCESS TO THE EC MARKET FOR SOYBEANS AND SOYBEAN PRODUCTS. ITS APPROVAL BY THE COUNCIL WOULD HAVE GRAVE AND LASTING EFFECTS, NOT ONLY IN THE TRADE FIELD, BUT MORE SERIOUSLY, ON OUR BROADER POLITICAL AND ECONOMIC RELATIONS WITH THE COMMUNITY. POSTS SHOULD APPROACH HOST GOVERNMENTS AND THE COMMISSION AT APPROPRIATE HIGH POLITICAL LEVEL AND, DRAWING ON POINTS BELOW, CONVEY THE EXTREME SERIOUSNESS WITH WHICH WE VIEW THIS PROPOSAL AND THE VERY DAMAGING EFFECTS ITS APPROVAL WOULD HAVE ON US-EC RELATIONS.

-- ACCESS TO THE EC MARKET FOR SOYBEANS AND SOYBEAN PRODUCTS IS A MATTER OF GREAT POLITICAL SENSITIVITY IN THE UNITED STATES. IT IS OUR SINGLE LARGEST MARKET IN THE EC AND THE PRINCIPLE OF FREE ACCESS IN THIS AREA IS OF GREAT SIGNIFICANCE.

-- THE PROPOSED TAX ON FATS AND VEGETABLE OILS IS A DIRECT ATTACK ON THAT ACCESS AND A CLEAR IMPAIRMENT OF OUR GATT BINDINGS. ITS APPROVAL WOULD HAVE PROFOUND AND FARREACHING EFFECTS ON OUR OVERALL RELATIONS.

-- WE UNDERSTAND THE EC HAS A DAIRY SURPLUS PROBLEM, BROUGHT ABOUT BY UNREALISTICALLY HIGH SUPPORT PRICE LEVELS. WE HAVE ENCOURAGED EC EFFORTS TO SOLVE THIS PROBLEM, BUT MEASURES WHICH PASS THE COST OF ADJUSTMENT ON TO THE COMMUNITY'S TRADING PARTNERS ARE UNACCEPTABLE.

-- THE EFFECTS OF THE CONSUMPTION TAX WILL BE TO LOWER OVERALL DEMAND AND TO IMPROVE THE COMPETITIVE POSITION OF BUTTER VIS-A-VIS MARGARINE, BOTH OF WHICH WILL HAVE ADVERSE EFFECTS ON OUR SOYBEAN EXPORTS.  
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-- EXEMPTION OF OLIVE OIL FROM THE TAX ALSO PLACES SOYBEAN AND OTHER EDIBLE OILS AT A COMPETITIVE DISADVANTAGE, AGAIN LIMITING LIKELY SOYBEAN AND SOYBEAN OIL IMPORTS.

-- WE ARE SURPRISED AND DISAPPOINTED AT THE COMMISSION'S ACTION IN PUTTING FORWARD SUCH A PROPOSAL. FOR THE PAST

FEW YEARS WE HAVE BEEN GENERALLY SUCCESSFUL IN MANAGING POTENTIAL TRADE PROBLEMS BETWEEN US AND IN GIVING FIRM SUPPORT TO THE OECD TRADE PLEDGE. THE COMMISSION ACTION CALLS INTO QUESTION NOT ONLY ITS COMMITMENT TO THE PLEDGE, BUT ITS BROADER COMMITMENT TO THE MAINTENANCE AND IMPROVEMENT OF OUR OPEN TRADING SYSTEM.

-- THE COMMISSION PROPOSAL CAN ONLY HAVE A HIGHLY ADVERSE EFFECT ON THE ATMOSPHERE IN THE MTN. THE CONFIDENCE IN THE TRADING SYSTEM AND IN THE RELIABILITY OF THE COMMITMENTS OF THE PARTICIPATANTS, WHICH IS NECESSARY FOR A SUCCESSFUL NEGOTIATION, WILL BE SERIOUSLY UNDERMINED AND DOMESTIC POLITICAL SUPPORT IN THE US FOR THE MTN THREATENED BY APPROVAL OF THIS PROPOSAL.

-- WE ARE AT A POINT IN WORLD AFFAIRS WHERE CLOSE US-EC COOPERATION IS CRITICAL TO MEETING OUR SHARED OBJECTIVES. MAJOR ACTIONS, HITTING DIRECTLY AND DAMAGINGLY AT US INTERESTS, SERVE TO ERODE MUTUAL CONFIDENCE, SET UP HARMFUL FRICTIONS, AND GENERALLY SOUR THE ATMOSPHERE OF WHAT SHOULD BE A CONSTRUCTIVE AND COOPERATIVE RELATIONSHIP.

-- WE WOULD URGE THE COMMUNITY IN THE STRONGEST POSSIBLE TERMS TO CAREFULLY CONSIDER THE BROAD IMPLICATIONS OF THIS TAX PROPOSAL, INCLUDING THE CERTAINTY OF A STRONG US REACTION, AND TO REJECT IT, SEEKING SOME ALTERNATIVE SOLUTION TO ITS DAIRY SURPLUS PROBLEM WHICH WILL NOT FORCE ITS TRADING PARTNERS TO BEAR THE BURDEN OF THE COST.

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-- MATTER IS UNDER INTENSE REVIEW AT HIGHEST LEVELS IN WASHINGTON. WE WILL HAVE ADDITIONAL COMMENTS IN NEAR FUTURE ON REACTION IF TAX PROPOSAL IS ACCEPTED.

2.FOR PARIS, LONDON, BONN AND ROME: IN ADDITION TO ABOVE POINTS, POSTS SHOULD UNDERLINE COMMITMENT OF HOST GOVERNMENT AT RAMBOUILLET SUMMIT QUOTE TO AVOID RESORTING TO MEASURES BY WHICH THEY COULD TRY TO SOLVE THEIR PROBLEMS AT THE EXPENSE OF OTHERS, WITH DAMAGING CONSEQUENCES IN THE ECONOMIC, SOCIAL AND POLITICAL FIELDS END QUOTE. KISSINGER

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